

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 XMB-07 EB-11 TRSE-00 OMB-01 L-03 STR-08

CIEP-02 SS-20 NSC-07 SAJ-01 CIAE-00 DODE-00 INR-10

NSAE-00 PA-04 RSC-01 PRS-01 SPC-03 USIE-00 INRE-00

SSO-00 NSCE-00 DRC-01 /106 W
----- 043213

O R 211955Z MAR 74

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC IMMEDIATE 8795

INFO AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY VIENNA

AMEMBASSY WARSAW

AMCONSUL ZAGREB

LIMITED OFFICIAL USE BELGRADE 1309

PASS EXIM WASHINGTON

PASS EXIM VIENNA FOR GEORGE DIETZ

E.O. 11652: N/A

TAGS: EFIN, YO

SUBJECT: EXIMBANK SUSPENSION OF TRANSACTIONS WITH YUGOSLAVIA

REFS: A. STATE 51715

B. STATE 49960

C. WARSAW 1427

D. STATE 44121 (NOTAL)

E. BELGRADE 1269 (NOTAL)

1. SUMMARY: AMERICAN BANKER TELLS US FINANCE SECRETARY SMOLE
STRONGLY EXPRESSED TO HIM DEEP DISMAY ABOUT SUSPENSION OF EXIM
TRANSACTIONS AND SERIOUS CONCERN ABOUT REASONS AND POSSIBLE
EFFECTS ON US-YUGOSLAV ECONOMIC RELATIONS. FINANCE SECRETARIAT
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COUNSELOR HAS READ TO EMBASSY OFFICER NOT EXPRESSING CONCERN

IN SOMEWHAT MORE MEASURED TONES. FOR CALL AMBASSADOR INTENDS TO MAKE ON SMOLE MARCH 25 WE WOULD APPRECIATE ESTIMATE WHEN SUSPENSION CAN BE LIFTED, AND ASSURANCE REQUESTED IN BELGRADE 1269 THAT SUSPENSION WILL NOT INTERFERE WITH TIMELY COMPLETION OF KRSKO ARRANGEMENT. END SUMMARY.

2. J.J. WIECKOWSKI, SENIOR VICE PRESIDENT, GIRARD TRUST BANK, BRIEFED AMBASSADOR MARCH 21 ON STORMY "COURTESY CALL" HE HAD JUST CONCLUDED ON FINANCE SECRETARY SMOLE.

3. SMOLE REPORTEDLY LAUNCHED IMMEDIATELY INTO EXIM SUSPENSION OF CREDIT PROCESSING AND CRITICIZED, IN AGITATED TERMS, WHAT HE TERMED INEXPLICABLY SUDDEN AND UNILATERAL EXIM DECISION, WITHOUT WARNING OR NOTICE.

4. ACCORDING TO WIECKOWSKI, SMOLE WENT ON TO STATE THAT, IF SUSPENSION PERSISTED FOR EVEN BRIEF PERIOD OF TIME, IT WOULD THOROUGHLY DISRUPT TRADE AND ECONOMIC RELATIONSHIPS BETWEEN TWO COUNTRIES. HE EXPRESSED SERIOUS CONCERN ABOUT COMPLICATIONS ALREADY DEVELOPING.

5. HE REPORTEDLY REMINDED WIECKOWSKI THAT YUGOSLAVIA HAD ORIENTED ITS ECONOMIC POLICY STRONGLY TOWARD US AS RESULT OF RELIANCE ON EXIM, AND THAT THIS WAS NO WAY TO TREAT GOOD CUSTOMER. YUGOSLAVIA HAD NEVER EXPERIENCED SUCH SURPRISE, "EVEN IN RELATIONS WITH SOVIETS," SOMEL SAID.

6. WIECKOWSKI PLANS TO CALL ON OR TELEPHONE SAUER MARCH 25.

7. EMBASSY OFFICERS HAD PREVIOUSLY THOROUGHLY BRIEFED FOREIGN AFFAIRS SECRETARIAT (FELBABOV) ASSISTANT FINANCE SECRETARY GAVRA POPOVIC (ON HIS RETURN MARCH 19 FROM KUWAIT AND LIBYA), AND COUNSELOR JELIC (IMMEDIATELY AFTER ISSUANCE OF EXIM ANNOUNCEMENT) ON DECISION AND ITS BACKGROUND.

8. ON MARCH 20, JELIC-READING FROM NOTES - PRESENTED FOLLOWING FINANCE SECRETARIAT REACTION TO EMBASSY OFFICER:

A. GOY "VERY SURPRISED" BY DECISION;

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B. GOY ALSO "VERY SURPRISED" THAT YUGOSLAV-AMERICAN ECONOMIC RELATIONS STILL CONNECTED TO AMERICAN RELATIONS WITH OTHER COUNTRIES, I.E., THAT YUGOSLAVIA STILL LUMPED TOGETHER WITH BLOC COUNTRIES;

C. GOY HOPES THAT SUSPENSION WILL BE LIFTED VERY SOON;

D. IF NOT, GOY WILL BE UNABLE TO EXPLAIN SUSPENSION TO YUGOSLAV

ENTERPRISES ADEQUATELY, IN WAY THAT WOULD ENABLE THEM TO CONTINUE TO PLAN ON LONG-TERM COOPERATION WITH US SUPPLIERS.

9. JELIC ALSO SAID THAT FINANCE SECRETARIAT WAS CONCERNED OVER NOT HAVING RECEIVED DIRECT COMMUNICATION FROM EXIM BANK EXPLAINING THIS DECISION, AS IT HAD IN PAST, E.G., INTEREST RATE HIKE.

10. OTHER YUGOSLAV REACTION TO SUSPENSION HAS INCLUDED SERIOUS CONCERN EXPRESSED BY ORGANIZATIONS CONCERNED WITH KRSKO PROJECT (REF E) AND INQUIRY RECEIVED FROM PRIVRDNA BANKA SARAJEVO CONCERNING TITOVIRUDNICI MINING EQUIPMENT CONTRACT. EMBOFFS HAVE REASSURED CALLERS THAT WE EXPECT SUSPENSION TO BE TEMPORARY AND THAT WE DO NOT ANTICIPATE MAJOR SNAGS IN CONCLUDING THESE PROJECTS.

11. CENTRAL TRADE UNION ORGANIZATION SOURCE SPECULATED TO EMBOFF MARCH 19 THAT SUSPENSION WAS OUTGROWTH OF USG IRRITATION WITH GOY INITIATIVES IN MIDDLE EAST, UN AND THIRD WORLD. NATURALLY, EMBOFF FIRMLY SQUASHED SPECULATION THAT EXIM SUSPENSION REFLECTED OR SIGNALLED A WORSENING IN RELATIONS.

12. IF IN FACT BANKERS REPORT OF CONVERSATION WITH SMOLE IS REASONABLY ACCURATE, WE HAVE PROBLEM ON OUR HANDS. AMBASSADOR SEEKING MARCH 25 APPOINTMENT WITH SMOLE TO REITERATE EXPLANATION REAL BASIS EXIM ACTION. IF POSSIBLE, BEFORE THIS MEETING EMB WOULD APPRECIATE (1) ASSURANCE SUSPENSION WILL NOT INTERFERE WITH TIMELY COMPLETION OF ARRANGEMENTS FOR KRSKO PROJECT, AND PARTICULARLY THAT 6 PERCENT INTEREST RATE ON EXIM CREDIT NOT IN JEOPARDY AS RESULT (2) WHATEVER INDICATION EXIM CAN GIVE OF ANTICIPATED DURATION OF SUSPENSION, AND (3) ANY RESPONSE EXIM MAY HAVE TO BELGRADE 1290 CONCERNING AMBASSADOR'S BRIEFING OF SMOLE OR ALBRIGHT VISIT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, BANK LOANS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BELGRA01309
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740060-0451
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740327/aaaaayxg.tel
Line Count: 146
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. STATE 51715
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 25 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 MAR 2002 by kellyw0>; APPROVED <06 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXIMBANK SUSPENSION OF TRANSACTIONS WITH YUGOSLAVIA
TAGS: EFIN, YO, PL, XMB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005